COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF COLUMBIA GAS) CASE NO. 10498
OF KENTUCKY, INC.)

O R D E R

IT IS ORDERED that Columbia Gas of Kentucky, Inc. ("Columbia") shall file an original and 15 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item No. 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. The information requested herein is due no later than April 10, 1989. If the information cannot be provided by this date, you should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

Information Request No. 2

1. Provide the adjusted wages and salaries expense of Columbia based on actual hours worked during the 12 months of the test period, and annualized to the wage rates in effect at the end of the test period. Provide complete detailed workpapers reflecting the derivation of this amount. Also, provide the same analysis utilizing test-year labor hours and wage rates effective subsequent to the end of the test period through December 31, 1988.

2. Provide the following information for salaries and wages for each month of the test period:

a. Actual salaries and wage expense incurred for the test period for union labor, nonunion labor, general and administrative.

b. The amount of test-period wage expense attributable to overtime for union, nonunion, general and administrative.

c. The amount of test-period wages and salaries allocated or charged directly to Columbia and the basis for such allocation. Provide complete details of the determinations of the direct charges or allocation factors.

d. The amounts of test-period wages and salaries capitalized and the amounts capitalized in the 12 months preceding the test period.

3. Explain why Columbia feels that it is appropriate to annualize wages and salaries on a monthly basis as it has done on Sheets 9 and 11 of the Cost Data portion of its filing.

4. Provide the support for the derivation of the $95,393,224 projected revenues shown on Sheet 7 of Item No. 16 of Columbia's response to the Commission Order dated January 17, 1989.

5. Clarify the reference F.S. Page 2A, Line 39 on Sheet 12 of Item No. 16 of the response to the Commission Order dated January 17, 1989.

6. Clarify the reference to CE 13 and 14 regarding Account No. 926 on Sheet 12 of Item No. 16 of the response to the Commission Order dated January 17, 1989.

7. Provide information concerning the FARA project including the amounts capitalized.

8. Provide journal entries made to record the construction work in progress ("CWIP") accrual of $980,044 to reflect the plant investment during the test period that is not shown in the plant in service account. (Cost Data Item No. 5, Sheet 4.)

9. Regarding the $980,004 adjustment to CWIP, provide the dates that the invoices were received from the contractors and the date(s) that the corresponding reversing journal entry(ies) were made.

10. In reference to Schedule 9, Sheet 3, provide the actual expenditures for replacement and additions to the rate base for November and December 1988. Provide this information in the same format used on Sheet 3, Schedule 9.

11. Provide detailed workpapers showing the derivation of the amounts for each budget number on Schedule 9, Sheet 3.

12. On page 9, line 22, of Mr. Payne's testimony, a figure of $2,216,904 is referenced as the non-revenue producing portion of total new business additions to rate base. Provide in detail an explanation of the determination of this amount and a more thorough explanation of why this is "non-revenue producing."

13. Provide an explanation for the significant decrease in operating revenues as shown on page 1, Item No. 7, of the response to the Commission Order of January 17, 1989.

14. Provide in detail the total expenses associated with the central office in Columbus, Ohio, that were allocated to Columbia. Show the department from which the expense originated (i.e., treasury, accounting, etc.) and the method of allocation used.

15. Provide the total amount of expenses associated with the central office in Columbus, Ohio, that were directly billed to Columbia and the department to which each expense is attributable.

16. Provide the detail for the determination of the allocation percentages for each distributing company listed on page 1 of Item No. 10 of the response to the Commission Order dated January 17, 1989.

17. In reference to Item No. 8 of the response to the Commission Order dated January 17, 1989, Columbia did not provide the requested trial balance.

The Commission Order dated January 17, 1989 stated that only one copy of the trial balance needs to be supplied to this

Commission. Other parties of record may, if they so choose, examine the copy on file with this Commission. Provide the one copy of the trial balance as requested in the Commission Order dated January 17, 1989.

18. Provide a list of each common general office account (asset, reserve, and expense account) covering the 12 months of the test year applicable to more than one jurisdiction or utility operation. This information was requested in Item No. 10 of the Commission Order dated January 17, 1989. Columbia failed to provide the requested information.

19. Provide a schedule of payments made by Johnson County Gas Company ("Johnson County Gas") and Martin Gas Company ("Martin Gas") to Columbia during the test period. Separate the payments into current and delinquent amounts and provide the amount of arrearage of each company as of December 31, 1988.

20. Provide Columbia's determination of the rate which would have to be charged for wholesale gas to Johnson County Gas and Martin Gas to recover the proposed cost of service plus an amortization of the arrearage over a 5-year period. Include complete details of all assumptions and calculations used to determine this rate.

21. In reference to Item No. 18(a) of the response to the Commission Order dated January 17, 1989, for each expense account that reflects a 10 percent change from the previous 12 months, provide a detailed explanation for the change.

22. Provide one copy of the information requested in Item No. 26 of the Commission Order dated January 17, 1989. The copy

of the information will be made available to other parties with prior arrangements by Columbia.

23. Explain line 5 on Sheet 1 of 1, Item No. 29 of the response to the Commission Order dated January 17, 1989. Does this represent charged-off accounts that have been collected?

24. Provide the amounts of increase in wages and salaries for the 12 months prior to the test period for employees in the management, union and other (management support, etc.) categories.

25. In response to Item No. 33 of the Commission Order dated January 17, 1989, Columbia states that a portion of its Kentucky labor costs are billed from other Columbia companies. Provide the amounts of labor costs billed from each of the other companies and identify those companies.

26. Reconcile the difference in operating revenues in Item No. 17, Sheet 1, line 38 and Item 7, page 1, line 2, of the statement of income.

27. In reference to page 4 of H. A. Wise's testimony, provide the report of Towers, Perrin, Forster and Crosby, Consulting Actuaries, upon which the annual contributions to Columbia's retirement plan are based.

28. Provide the detailed workpapers showing the derivation of the $611,064 for Columbia's estimated contribution to its retirement plan per line 15, page 5 of H. A. Wise's testimony.

29. On page 6 of H. A. Wise's testimony, reference is made to a retrospective payment to Aetna. Provide a detailed narrative explanation of the reason for this payment and the amount of the payment.

30. Explain why Columbia feels it is appropriate to recognize wage adjustments occurring 16 months beyond the end of the test period.

31. Provide the amount of any employee concessions by Columbia. Include any concessions for managers, officers and directors that are allocated or directly charged to Columbia.

32. Provide a detailed breakdown of the rate case expenses incurred as a result of this proceeding.

33. Does Columbia have information comparing its employee benefits to comparable companies? If so, provide this information. If not, provide Columbia's analysis of how its employee benefits compare with other companies.

34. Columbia's Notice, Schedule 10, shows the Mcf blocking and the number of bills used on Schedule 8 of the cost data. The actual test-year Mcf volumes can be traced and matched to the volumes reported in Item No. 41 of Columbia's response to the Commission Order dated January 17, 1989. However, the number of bills does not trace to the number of customers shown in Item No. 41. Provide the following information regarding the number of bills shown in Schedule 8, Summary of Gas Sales:

a. Provide a detailed explanation of how the number of bills in Column 1 was derived for each rate class.

b. For the GSR Schedule the number of bills is 1,220,884, which divided by 12 months is an average of 101,740 bills per month. The average number of residential customers for the 12 months of the test year is 104,139 as shown on line 40 of v the August 1988 sheet in Item No. 41. Provide a detailed explanation/reconciliation for this difference.

c. Similar differences exist for commercial and industrial customers. The total number of commercial bills divided by 12 is 11,817 compared to 12,086 average customers shown in Item No. 41. The total for industrial bills divided by 12 is 88 compared to 93 average customers shown in Item No. 41. Explain/reconcile these differences.

d. Provide, for each rate class, the number of customers for each month of the test year and for the months since the end of the test year.

35. On pages 6 and 7 of his direct testimony, Mr. Gibeaut describes and shows the number of new residential and commercial customers Columbia has added or will add from 1985 through 1990.

a. Do the new customers in 1988 (2,730) represent the difference between January 1, 1988 and December 31, 1988? If not, how was this amount determined?

b. Including the 2,730 new customers for 1988, how many customers did Columbia have at December 31, 1988? (By rate schedule).

c. By rate schedule, how many customers did Columbia have at the end of the test year?

36. a. Per the testimony of Mr. Gibeaut, Columbia is adding customers at a rate of 2,500 to 3,000 per year. Why has this growth not been reflected in the form of a year-end customer adjustment?

b. As derived from the volumes reported in the Summary of Gas Sales in the current case and the two most recent rate cases, Case Nos. 10201 and 9554, Columbia's normalized average GSR customer usage has been 8.91, 8.83 and 8.96 Mcf, respectively, in those 3 test years. With a constant usage level such as this, customer growth will result in sales growth. If growth is going to be reflected in expense and investment levels, why not also reflect it in revenues?

c. Provide a list of the specific expense accounts that Columbia considers variable or that would fluctuate with a change in the number of customers.

37. Schedule 10, Column 5 of Columbia's Notice summarizes the Mcf adjustment due to weather normalization. Provide all information necessary to analyze the weather normalization adjustment including:

a. Workpapers showing normal degree days, test-year degree days, and the calculation and determination of the 58,041 Mcf increase in sales.

b. National weather service temperature data used as the basis for normal temperatures.

c. A detailed explanation of how Columbia used this data to derive the Mcf adjustment.

38. On page 15 of Mr. Burchett's prepared testimony, lines 6 through 9, he describes how the requested increase was apportioned among the rate schedules. Provide supporting workpapers with a detailed explanation of how the percent increase was applied to base rates to determine the various rate schedule increases.

Witness: W. L. Payne - Pro Forma Adjustment to Rate Base. The following questions refer to Schedule 9 of the Cost Data.

39. On Sheet 1 of 3, line 3, an embedded cost per customer of $700.37 is shown. Demonstrate how this embedded cost was determined.

40. On Sheet 1 of 3, line 6, a projection of 1,775 new customers is made for the 9-month period, November 1988 to July 1989.

a. Describe the forecasting methodology used and all assumptions made in determining these new customer additions.

b. Provide a complete percentage breakdown by customer class of the projected new customer additions.

41. Provide a percentage breakdown by customer class of all new business-related costs shown on Sheet 2 of 3, lines 1-12, columns 3 and 4.

42. Identify the new customers referred to on Sheet 2 of 3, lines 13-14, as well as the rate schedule(s) under which they are to be served.

43. Provide a complete description of the new business plant additions referred to on Sheet 2 of 3, lines 13-17.

44. Explain why Local Gas Purchases have been identified as a non-revenue producing plant replacement as shown of Sheet 3 of 3, line 1.

Witness: W. L. Payne - Cost of Service Study. The following 10 questions refer to W. L. Payne's Prepared Direct Testimony and/or the Cost Allocation Study.

45. Provide a basis for the Company's belief that the Demand/Commodity and Customer/Demand Studies form the outer limits of the possible allocations of main costs to the various classes of service as stated on page 11, lines 16-18 of Payne's testimony.

46. Has the company performed a zero-intercept study to provide an alternative methodology for the allocation of main costs? If yes, provide a copy of this study.

47. If a zero-intercept study has not been performed, explain, theoretically, how the results of a zero-intercept study would differ from the results of the main cost allocation methodologies presented in the Customer/Demand and Demand/Commodity Studies.

48. Explain how the company's load profile has changed over the past several years as stated on page 12, lines 2-3 of Payne's testimony.

49. Explain how the company's changing load profile has effected the commodity component of the demand-commodity allocation factor as stated of page 12, line 3 of Payne's testimony.

50. Explain why the "most commonly installed minimum size pipe" was used to determine the minimum-sized system as stated on page 13 of Payne's testimony. What criteria was used to determine that the 2-inch main represented the "minimum-system"?

51. With reference to page 14, line 11 of Payne's testimony, explain why Allocation Factor No. 1, which excludes transportation volumes, was used to calculate Allocation Factor No. 41 instead of Allocation Factor No. 18, which includes transportation volumes.

52. Demonstrate how the figures shown in the column 34.89 percent multiplied by Factor 1 on the table on page 14 of Payne's testimony were calculated.

53. The footnote on page 14 of Payne's testimony shows that total actual investment in mains on Columbia's books is $43,757,451, excluding a $5,824,837 investment in valves. Explain why valves are not considered a part of the minimum-sized distribution system necessary to serve customers.

54. Explain why Allocation Factor No. 41 was used to allocate customer advances for construction associated with mains as shown on Schedule 7, Sheet 9 of 15, line 1 of the Demand/Commodity Study.

55. Explain why equal consideration is being given to the results of the two Cost Allocation Studies presented by Mr. Payne in order to support the proposed changes in rate design, as stated on page 14 of Mr. Burchett's testimony.

56. Explain how the Cost Allocation Studies were used in developing the proposed rate design in Mr. Burchett's testimony.

57. Schedule 2, Sheet 2, of Columbia's Cost Data, line 19, shows an adjusted total for natural gas city gate purchases of $63,013,644, with all local gas purchases adjusted to zero. In support of this adjusted expense level, and in conjunction with the proposed changes in demand charges and the gas cost adjustment clause, provide workpapers (schedules) showing the derivation of:

a. The adjusted purchased gas expense, including specific volumes and rates.

b. The demand charge revenues to be recovered from FI and IS customers.

c. The expected gas cost rate of $2.5331 and $3.4259 reflected in the proposed tariffs, Sheet 2-A.

58. On pages 15 and 16 of his prepared testimony, Mr. Burchett describes the proposed D-1 and D-2 demand charges which will track the demand rates of Columbia Transmission. Provide a detailed explanation of why this tracking is necessary, or desirable, and explain how the resulting shift of gas costs to the GS customer class was recognized in deriving the proposed base rates.

a. In the same format used in the semiannual gas cost adjustment filings, provide the calculations and explanations for the proposed CCR and DCR gas cost adjustment rates.

b. On page 18 of his testimony, Mr. Burchett refers to FI customers paying a demand charge plus an average cost of gas which also includes a demand charge. Would a gas cost adjustment that resulted in no separate demand charges for FI customers and one average cost of gas for all customer classes achieve the objective of removing the "double-demand" charge?

c. If not interrupted, IS customers will contribute to peak-day demand. How many days has Columbia interrupted service during the past 10 years?

d. Under the proposed gas cost adjustment clause, the IS class would have the lowest average cost of gas per Mcf, the FI class would have the highest average cost per Mcf, and the GS and IUS classes would be between these highs and lows. Provide a detailed explanation of the demand requirements of the different rate classes that support the proposed adjustment clause.

59. On pages 16 through 18 of his prepared testimony, Mr. Burchett discusses transportation flex rates and how flex rate revenues have been imputed for this case. In support of this testimony provide the following information:

a. For each month of the test year, and succeeding months through December 1988, the monthly flex rate volumes, rates, and revenues by customer. The customers may be identified by letters A, B, C, etc. as in Case No. 10201.

b. Test-year actual flex rate volumes and revenues on a total company basis.

c. The derivation of the current test-period revenue requirement contribution of \$.0149 per Mcf.

60. a. In Case No. 10201, it was established that rate flexing benefits Columbia's shareholders as well as its tariff customers. Explain, in detail, how the imputed revenue approach proposed by Mr. Burchett balances the costs and benefits of rate flexing between customers and shareholders.

b. Test-year normalized flex rate revenues are \$272,711. At the fixed base rate, these sales would have produced \$925,278 in revenues for a difference of \$680,167. The proposal to absorb 20 percent of the amounts collected below the normalized level means Columbia's shareholders are at risk for only \$54,542 (\$272,711 X .20). On what basis can this be considered an equitable sharing of risks by ratepayers and shareholders?

61. The testimony and exhibit of Ms. Cole support the need for, and benefits of, rate flexing. Regarding Exhibit KHC-1, provide the following information:

a. An explanation for using test-year tariff sales on Line 3 after using 1989 projected flex volumes on line 1.

b. The stated purpose of the exhibit is to show the revenue impact if rate flexing were not permitted. Why is the fixed rate used on line 2 rather than a composite flex rate?

62. On pages 3 and 4 of her direct testimony, Ms. Cole explains why Columbia has proposed no increase in its fixed transportation rate. With regard to Columbia's fixed rate sales, provide the following information:

a. Fixed rate volumes and rates for the calendar years 1986, 1987, and 1988.

b. The number of fixed rate customers for each month of the test year and for each month since the end of the test year.

c. The test-year volumes for each of the 10 largest fixed rate customers.

63. In Case No. 10201, the Commission made an adjustment to annualize Columbia's revenues from sales to Toyota's Georgetown plant. In the instant case, the test year-ended August 31, 1988, includes only 10 months' sales to Toyota. Provide the following information concerning sales to Toyota:

a. Monthly volumes and revenues from November 1987 through the most recent month available.

b. Identification of the rates and rate schedules applied to all sales to Toyota.

64. Columbia's monthly report for August 1988 shows lost and unaccounted-for gas of 438,829 Mcf for the 12-months ended August 31, 1988.

a. Does this represent losses on tariff volumes only, or does this reflect total throughput, including transportation service?

b. Transportation volumes account for 28.4 percent of total throughput. Explain whether it would be appropriate to assign this portion of lost and unaccounted-for gas to the transportation class from a cost of service standpoint.

65. In Case No. 10201, in the prepared testimony of Mr. Burchett, page 5, he stated, "Columbia intends to eventually have transportation rates that approximate the mark-up above gas cost for all rate schedules."

a. Have the market conditions described by Ms. Cole caused Columbia to abandon this goal? Explain.

b. Were it not for the competitive market conditions, would Columbia propose to maintain a transportation rate that approximates its tariff rate mark-up over gas cost? Explain.

c. Test-year fixed rate volumes for FI and IS transportation customers were 4,553,004 Mcf. If the 9.05 cent increase in the tariff rate was applied to this volume, an increase in revenue of $412,047 would result; however, due to the competitive conditions, Columbia is proposing that this increase be borne by its tariff customers. If competition is the reason for foregoing an increase in the fixed transportation rate, explain why some of the loss of the foregone revenue should not be borne by shareholders?

66. Ms. Cole, in her testimony, discusses retaining load and gaining load while Mr. Gibeaut describes policies and strategies for increasing load and adding customers. Mr. Payne, however, testifies that the addition of new customers and the plant investment associated with new customers is a contributing factor in Columbia's declining earnings.

a. What consideration has been given to a no-growth strategy that would reduce the additional investment required by Columbia?

b. Per Mr. Payne's testimony, increased customers and the related increase in investment will reduce earnings unless rates are raised. What would be Columbia's growth strategy if it were a stand-alone company without an affiliate supplier that benefits from its sales growth? Explain.

c. If corporate decisions to expand are made to benefit Columbia Transmission, but have a negative impact on Columbia, what steps will Columbia take to ensure that its customers are not negatively affected?

67. A new item in Columbia's proposed tariffs is Customer Owned Volume Transfers included in Schedule 4 of the Notice (Tariff Sheet No. 7-A2).

a. Explain the circumstances that led to the proposal of this tariff.

b. What is the projected revenue impact from providing this service?

c. Why is the proposed rate to be discretionary, rather than be set as a fixed rate for all customers?

d. Explain how the proposed $20 transfer fee and $.05 per Mcf charge were determined.

e. Under what circumstances does Columbia expect to charge for this service?

f. Describe the impact such transfers would have on Columbia's load balancing problems?

68. A second tariff proposal is Cost Avoidance Service (Tariff Sheet No. 8).

a. Explain in detail how this service could be used to offset take-or-pay charges or gas inventory charges.

b. What customer classes would be eligible for this service?

c. Explain whether this will be a brokerage service or a delivery service, whether Columbia or the customer will be purchasing the gas, and who takes title to the gas.

d. How will this compare, or differ, with Columbia's SAS tariff?

e. The rate for this service is to be the maximum allowed by the current competitive environment. At present, what would be the maximum rate? How will the rate be determined?

f. How was the amount to be returned to tariff customers set at 80 percent of the excess?

g. Under what Columbia Transmission tariff would this gas be available?

h. For purposes of this tariff, how is Columbia defining alternate energy sources?

69. Provide a detailed explanation of the text changes proposed for the Minimum Monthly Charge under Rate Schedule FI (Tariff Sheet No. 57).

70. Provide a detailed explanation for the proposed tariff sections headed Nomination of Seasonal Purchases Gas Demand and Payment for Unauthorized Takes-Seasonal for both Rate Schedules FI and IS (Tariff Sheets 58 through 62 and 72-A through 76).

a. What options does a customer have if Columbia refuses the requested nomination?

b. If a customer's contract is for more than 1 year, under what circumstances and how frequently can a customer change its nomination?

c. If approved, could the tariff on customer-owned transfers reduce the incidence of unauthorized takes? Explain.

d. Explain the use of the term, Seasonal Purchased Gas Demand Charge, on Sheet No. 60 of the proposed tariffs in part (b) of the first paragraph. Is Columbia proposing different demand charges for the summer and winter seasons?

71. Have any of Columbia's customers currently served under Rate Schedule IUS started using Delivery Service under Rate Schedule IUS?

72. Should the proposed total volumetric rate for "All over 200 Mcf per month" under Rate Schedule GS be $4.7597 instead of $4.7639 on Sheet No. 2-A?

73. Should the proposed total commodity charge under Rate Schedule FI and Rate Schedule IS be $3.0531 instead of $3.0530 on Sheet No. 2-A?

74. Should the "Reporting period" mean the 6-month accounting period that ended approximately 30 days prior to the filing date of the updated gas recovery rates instead of 40 days on Sheet No. 83 of the proposed Semi-Annual Gas Cost Adjustment Clause?

75. What is the research center cost during the test year and what are the charges against Columbia?

76. What is the income of the research and development program to Columbia from licenses and royalties derived from successful research?

77. What is Columbia's benefit in the utilization research in the following:

a. Glow Core Corporation development of Gas Package Terminal Center.

b. Dehumidifiers.

c. Ralph Parson's development of a gas cleanup process.

d. Novel paper drying system.

e. SO_x Control from combustion of coal in fluidized bed.

f. Conversion of Columbia's vehicles in Columbus, Ohio, to compressed natural gas as fuel.

g. Aluminum smelter.

h. Ceramic radiant tube forging furnace.

78. Provide the feasibility studies and a time schedule for the projected investment of $10,000,000 annually over several years.

Done at Frankfort, Kentucky, this 27th day of March, 1989.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Executive Director